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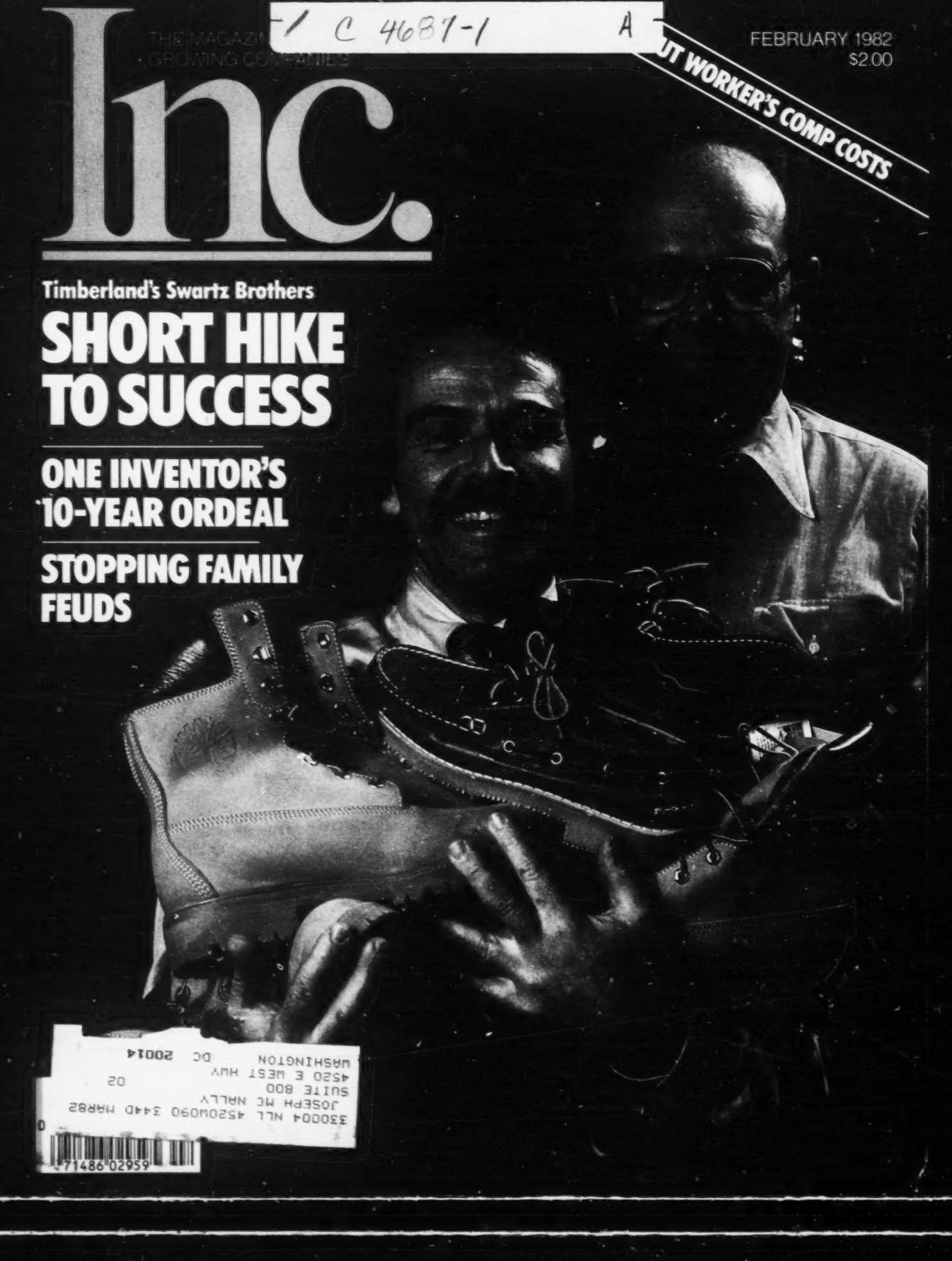

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By Tom Richman

CAN THE U.S. CHAMBER LEARN TO THINK SMALL?

Though 91% of its 230,000 members are small companies, the Chamber is still run by corporate fat cats.

The U.S. Chamber of Commerce has always drawn its numbers from the ranks of small business. Its dollars, on the other hand, have come from the country's largest corporations. A mom-and-pop retail firm pays $100 to join the Chamber. The biggest companies are charged $75,000 or more. Dues for the average new member in 1981, according to Chamber figures, were $155.

It should surprise no one, then, that the heavyweight dues-payers—major corporation executives—hold most of the seats on the Chamber's board, and that the chairman of the board has always been a corporate mogul. In the last couple of years, however, small business members have begun to wake up. It is still true that, when the Chamber's board meets to ponder solemnly the future course of capitalism, the old corporate neckties are still worn. But now there is an irreverent small business commotion outside the boardroom door that won't be ignored.

One reason for the noise small business is making in the Chamber is the organization's phenomenal growth rate: Membership doubled in 1981 as 600 commissioned salespeople, reinforced by telephone solicitors, signed up new companies at the rate of 3,000 per week. The Chamber closed 1981 with about 215,000 members, almost halfway toward its goal of a half-million by the end of 1983.

As the Chamber gets bigger, its members get smaller. You can't recruit 100,000 new companies from the *Fortune* 500. Between April 13 and October 7, 1981, 69,000 firms joined the Chamber, and of those, 48,000, or nearly 70%, employed 10 or fewer people. The smallest companies, which in April made up 37% of the Chamber's total membership, by October accounted for 49%. In fact, 91% of the Chamber's member companies have fewer than 100 employees. The Chamber's membership is overwhelmingly small business—and getting more so.

The differences between large and small businesses are mostly imaginary, says U.S. Chamber of Commerce president Richard L. Lesher.

The U.S. Chamber's membership comes closer than that of any other lobby to reflecting the diversity of the American business community. But the people who set policy for the Chamber—deciding which bills, which regulations, and which politicians the organization will support or oppose—don't reflect that diversity.

Small business membership on the Chamber's board has grown to as many as 10, if "small business" is very broadly defined. If you count only those members who head companies doing less than, say, $50 million annually, the number drops to 6 or fewer.

Eamonn McGeady, an active Chamber member who is president of a Baltimore marine construction firm, says, "The big boys on the board just don't trust the little boys. They might do something rash." Indeed, one board member confides that "it would be embarrassing" to have "unsophisticated" small businesspeople sitting on many of the board's policy committees.

(continued on page 82)

Photo by Dennis Brack/Black Star

"I'm a small businessman."

-John Havlicek

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But McGeady sees the Chamber's emerging small business activists as "generally well educated if not well-heeled. They're not kooks. They are people who turn out to be socially acceptable. As these people earn their spurs within the organization," he says, "their performance will gradually impel them onto the board."

Chuck McDonald, president of McDonald Equipment Co. in Willoughby, Ohio, and a member of the Chamber's Council of Small Business, agrees. "You'll find that the small business voice in the Chamber will be stronger," he says. "It won't be the only voice, but that's as it should be."

Like the membership of the board, the structure of the Chamber's staff also fails to reflect the overwhelming small business membership of the organization. But here, too, change—slow change—is under way.

The U.S. Chamber's 400-plus-member Washington staff consists of a president, one senior vice-president, at least seven vice-presidents, three general managers, 21 managers, 63 directors, and various controllers, associate directors, special assistants, counsels, and others. Most of them work in a large stone building across the street from the White House, the inside of which is indistinguishable from dozens of government office buildings housing equally inscrutable bureaucracies. Interoffice memos sometimes take two days to get where they're going. It's the kind of organization in which executive-level bureaucrats have their secretaries telephone, then leave you dangling on hold until the boss picks up.

"They told me when I came here," says Jeff Joseph, manager of the Business-Government Affairs Division, "that it would be six months before I thought I understood how this place works and a year before I would know that I still didn't understand it."

One of those 63 staff directors, Ivan Elmer, heads the Chamber's four-person Small Business Center. It sits on an organizational tier three levels below the president's office. Elmer, a 16-year Chamber veteran, "is a gentleman and is capable, but he's an organization man who wants to stay that way," says a member who works closely with him.

Until 1976, when Elmer was put in charge of developing the just-created Small Business Center, there had been no official recognition within the Chamber's staff structure of any need to think of small business as distinct from all business. Five years later the Center remains one small part of the huge bureaucratic structure, but Chamber staffers say it's become an important base to touch. "Issue managers call me frequently to check on the small business impact of lots of issues," says Chris Rus-

sell, a congressional lobbyist for the Center.

The lay counterpart to the staff Small Business Center is the 60-member Council of Small Business, one of 18 policy committees that report to the board. Committees are headed by board members, but not all committee members hold board seats.

The council meets twice a year to vote on policy recommendations that are based on research data and information provided by Chamber staff. Those recommendations eventually get to the board, either directly or modified first by one or more of the Chamber's 17 other policy committees.

So if there's one place in the U.S. Chamber where small business activism should blossom, the council is it. Look hard and you can find the bud, but there's little bloom yet. "When we have brought up items that would make the board of directors uncomfortable, we've been asked not to pursue them," says Elaine Donaldson, executive vice-president of Donkirk Tool Supply Inc. in Convina, Calif. For example, some council members say their attempts to talk about problems created by high interest rates were discouraged, because the Chamber board strongly supports the government's tight monetary policy.

Council members seem to fall into one of two groups, Company Men and Young Turks. Frank Morsani, the chairman of the council, is definitely a Company Man. Other council members call him Father Morsani. He owns seven auto dealerships, selling mostly foreign cars, in Florida, Kentucky, and Georgia. He's a mediator who does his best to defuse confrontation. "Individual council members," he says, "will want things that the board wouldn't approve. I try to be sure we have winnable issues." Morsani sits on the Chamber board.

So does Van P. Smith, another council member, whose business interests and holdings include several industrial firms, an industrial park, a television station, and an interest in a bank. Smith, from Muncie, Ind., is also a Company Man and sees the Chamber as an "umbrella group that speaks to the needs of the entire business community." Let other organizations represent the special needs of small business and specific industries, he says; the Chamber's role is to help set broad economic directions. "Our first job," Smith holds, "is to see that the train is going in the right direction. Then you can put the windows up or down."

"Frank Morsani, Van Smith," says Chamber member Jack Yaissle, "hell, those aren't small businesspeople as far as I'm concerned." Yaissle's family-owned Pottsville, Pa., auto and truck body shop employs 15 people plus Yaissle's wife, who runs the office. A

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-John Havlicek

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member of the Small Business Council, Yaissle acknowledges the progress the council has made in raising the Chamber's small business consciousness, but says the Chamber is still skewed toward big business because "Big Daddy pays the bills." He complains that the Chamber could do something—but doesn't—to help small companies live through this period of high interest rates. "There is no leadership from the Chamber in most important small business issues," he says.

Another of the council's Young Turks, Bill Nourse, runs a hardware store in Nashville, Tenn. Of all the Chamber committees, he says, the Small Business Council is "the most active but probably has the least impact. I don't think upper Chamber management takes us seriously yet."

Yaissle and Nourse, like many of the other Young Turks, are active in other small business organizations, some of which take stands in opposition to the Chamber. But whatever their complaints, this council faction is sticking with the Chamber. "They've got the resources," says Nourse, "and we've got to find a way to channel them."

Those resources are, to say the least, substantial. In the fiscal year ending June 30, the Chamber expects to collect $57 million in dues, up from $28 million last year. Subscription and advertising revenues from its publications and radio and TV programming will contribute $21 million. Altogether, the Chamber anticipates income of $85.6 million this year, a 35% jump over 1981. While nearly $32 million will be plowed right back into marketing and sales, a nifty $50-million-plus will be available to promote the Chamber's mission: "To advance human progress through an economic, political, and social system based on individual freedom, incentive, initiative, opportunity, and responsibility."

Admirers and detractors alike acknowledge the U.S. Chamber's ability to influence public opinion, in turn influencing thinking in Washington. Every week the Chamber mails a hefty tabloid newspaper, *Washington Report*, to 887,000 subscribers. The circulation of its monthly magazine, *Nation's Business*, is more than 1.1 million, larger than that of *Fortune*, *Forbes*, INC., or *Business Week*. About 1.3 million households, according to Chamber figures, watch its weekly half-hour television program, "It's Your Business."

The Chamber has just completed filling the courtyard of its Washington office building with the largest (by their estimate) television studio in the city. And it's building a private satellite television network, called BizNet, that will link Chamber headquarters with state and local chambers, corporations, and any member who wants to install a receiving dish. Also down the road is a daily, half-hour business news program for commercial television.

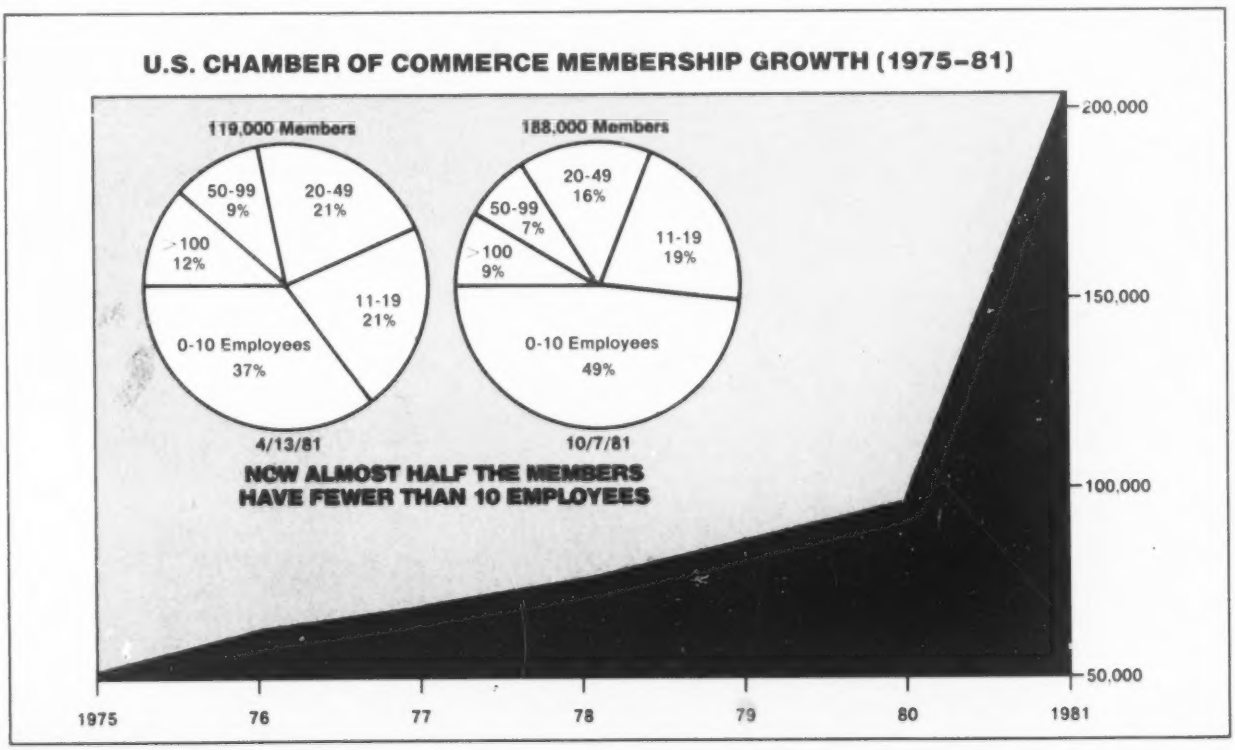
And every day the Chamber staff cranks out news releases, editorials, study reports, speeches, etc., that it mails to the media and to member organizations. "What this organization really is," says Chamber president Richard Lesher, "is a communications conglomerate."

Despite the lopsidedness of its board and committee structure, over the past several years the Chamber has generally used its resources in support of legislation favored by more narrowly based small business lobbies. It worked hard in 1980 to enact the Regulatory Flexibility Act, for example, and it continues to be one of the strongest proponents of regulatory relief for small companies.

Last year the Chamber's board bent its standing policy of opposition to quotas or set-asides in government programs to endorse legislation calling for small business set-asides in government-funded research and development.

A staff aide to the House Small Business Committee didn't ask the Chamber to testify publicly in support of that legislation because, in his words, "The Chamber doesn't represent small business." But the same staffer later asked Chamber lobbyists privately to help him find House members who would agree to add their names to the bill as cosponsors.

In the competition between the Reagan Administration and House Democrats to write last year's tax bill, the Chamber sided solidly with Reagan. ("We like to think Reagan adopted our program," says a senior Chamber executive.) That provoked criticism from some members and from some small business lobbies who saw the Democrats' bill as more favorable to small business. While it is unarguably true that the original Reagan plan contained



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If you income for 1981 is more than your average income for the past four years, try "income averaging." It could save you money. See Schedule G, Form 1040, Income Averaging.

If you itemize deductions and are using the Sales Tax Tables to find the appropriate amount of sales tax to deduct, remember to use your "total available income" which may include some nontaxable items such as social security and welfare benefits, when reading the Sales Tax Table.

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A public service message from the Internal Revenue Service

little of specific interest to small business, the White House eventually had to make concessions to push the measure through Congress. "When it came time to compromise," says Wayne Valis, a White House special assistant, "we negotiated with our friends." Few groups had been friendlier than the U.S. Chamber, to whom Valis gives much of the credit for seeing that reduced corporate tax rates, liberalized estate and gift taxes, and other cuts of specific interest to small business were incorporated in the compromise bill.

In spite of the Chamber's recent record of support for small business, skeptics on Capitol Hill, on Main Street, and even inside the Chamber itself believe that it is still an organization run by and dedicated to the welfare of the fattest of America's corporate cats.

Sometimes, the Chamber's own rhetoric fuels this view. Last summer, in one of his frequent mailings to editors, Chamber president Richard L. Lesher said that Reagan's tax bill "has touched off a series of questions and controversies over who will reap the greatest share of its benefits. . . . Will big business benefit while smaller companies suffer?" Lesher dismissed such concerns as "missing the point," which was, he said, that the Reagan plan would help everyone.

"I really think," says Lesher, "the dichotomy between big business and small business is imaginary more often than not. It's a dichotomy that often the opponents of the business viewpoint like to conjure up. They like to divide and conquer."

The increasing dominance of small business in the Chamber's membership does not cause Lesher to "see any major changes in the way we construct our policies." Nor has it caused any further change in the Chamber's most visible body, its board. New members added last year included the chief executive officers of 3M, Safeway Stores, R.J. Reynolds Industries, and the president of Stokely-Van Camp.

"Well," says Lesher, "I think you'll find that in the year 3000 small businessmen will still be dissatisfied with whether or not their voices are heard in Washington. But for those businesses, small or large, that are interested in being part of an advocacy organization that has the critical mass, the resources, the momentum, and a broad-based program for impacting on Washington, this is the place to be." □

Editors note: This is the first in a series of articles focusing on small business organizations and how responsive they are to their constituents.

Tom Richman is Washington editor for INC.

WHO THE IRS AUDITS

Unfortunately, the very things that encourage the IRS to audit you are the things that—for your own reasons—you're likely to want on your tax return.

By Irving L. Blackman

Soon millions of taxpayers will be filing their 1981 tax returns. Hands down, the most common question at this time of year is, "Will the IRS audit my tax return?"

The answer is that your chances of being audited depend on many factors, including Lady Luck. The higher your income, the greater your chances. Increasing deductions in relation to income also brings the long arm of the examiner closer.

The Internal Revenue Service indicated in a recent report that a computer picks most returns that are audited. The computer gives each return a score by assigning numerical weights to items on the tax return. The precise items and weights, unfortunately, are a closely guarded secret. But the higher your score, the better your chances of an audit.

No one has figured out how to crack the computer program, but we do know that unwelcome points are scored if your deductions are out of line. (See box for the latest national average deduction figures based on 1979 returns.) Keeping close to the national average, however, doesn't free you from the obligation of maintaining good records to document your deductions.

You may also want to consider the following list of audit triggers that the staff of the tax and legal publisher Matthew Bender believe to be the top 10 for personal returns:

1. Total gross revenue of $100,000 or more, or a substantial loss, from a proprietorship or partnership.
2. Total income before tax shelter activity of $50,000 or more.
3. Tax shelter activity.
4. Preparation of the return by a preparer on the IRS's list of "problem preparers."
5. Travel and entertainment expenses.
6. Business automobile expenses.
7. Casualty losses.
8. Significant barter income. (Note that failing to report any of your barter income won't necessarily keep you safe. The IRS has a "barter project" for investigating deals that are not reported.)
9. Home office deductions.
10. Losses incurred in "businesses" that seem to be hobbies.

Irving L. Blackman, a contributing editor of INC., *is a tax partner of Blackman, Kallick & Co., Chicago, Houston, and Miami.*

AVERAGE DEDUCTIONS CLAIMED IN 1979

Adjusted gross income	Contributions	Interest	Taxes	Medical
$20,000–$25,000	$ 583	$ 2,589	$ 1,699	$ 590
25,000– 30,000	654	2,792	2,053	549
30,000– 40,000	795	3,110	2,526	518
40,000– 50,000	1,115	3,069	3,327	514
50,000–100,000	1,793	5,131	3,675	696
100,000 or more	8,958	11,896	13,409	1,223

If you do get audited, you have a new incentive to settle quickly this year. Starting February 1, the IRS will be charging 20% interest on taxes it concludes you owe.

The current interest rate is 12%. The new rate was set in accordance with last year's Economic Recovery Tax Act, which requires the IRS to establish a rate every year equal to the prime rate charged by banks. When the rate was set for 1982, the prime was hovering around 20%. It doesn't matter that the prime has dropped since last fall; 20% is the rate that will be in force throughout the new year.

The IRS's new interest-rate policy can hurt you badly. Most audits take place a year or two after a return is filed. And fighting with the Internal Revenue Service can take four to six years or more. Thus a high IRS interest rate can easily mean you'll pay more in interest than the amount of the delinquent tax. The IRS has a substantial new advantage in negotiating with you.

There's just one bright spot. If it turns out that the IRS owes *you* money, the new policy means the government will be paying interest to you.

DON'T LOSE YOUR INTEREST DEDUCTION

Here's an interest tax trap you probably don't know about.

Suppose you owe the Nice Bank $20,000 for 90 days. The $1,000 interest comes due. The bank allows you to pay the interest and the old note by signing a new $21,000, 90-day note. According to the Internal Revenue Service, the $1,000 is not deductible. "Why?" you scream. Because the IRS says the interest is not really being paid if you borrow the interest due from the original lender. Unfortunately, the Tax Court recently supported the IRS on this. (See *Battlestein* v. *IRS*, 47 AFTR 2d 81-390.)

Is there a way to avoid this? Yes. Borrow the $1,000 from a second lender to pay off Nice Bank. Then you will be meeting the requirements of the court by paying cash instead of increasing your debt to the original lender.

PREVENT THE TAX BITE ON SERIES "E" BONDS

Here is a neat little gimmick that can prevent taxes on all those Series "E" Savings Bonds that Aunt Martha gave your kids: At the end of each year, file a tax return for the child and *elect* to treat the year's increase in the bond's value as interest income.

In most cases, your child will be in a zero-tax bracket and the earnings will escape tax-free. If the child held the same bonds until they matured, without declaring the interest income every year, all the income would funnel onto his tax return at one time. By that time the child would probably be an adult in a bracket where the tax-man's bite would be painful. But since the income was "made taxable" by your election, when the bonds mature years later all the proceeds will be collected tax-free.

The principle and tax-free accumulations are nice to contemplate as your child grows up. □